Valley Farm Credit, ACA

THIRD QUARTER 2008

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Valley Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Luther O. Stiles
Chief Executive Officer

Mary S. Miller
Chief Financial Officer

John P. Burns, Jr.
Chairman of the Board

November 5, 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of the consolidated operations of Valley Farm Credit ACA, Valley Farm Credit, FLCA and Valley Farm Credit, PCA (Association) for the period ended September 30, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2007 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including livestock, poultry, beef, orchards, dairy and rural home loans. Those major farm commodities totaled approximately $143,839 or 74.57% of the loan volume as of September 30, 2008. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat diminishes the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2008 was $190,089, an increase of $15,499 as compared to $174,590 at December 31, 2007. Net loans outstanding at September 30, 2008 were $188,395 as compared to $174,036 at December 31, 2007. Net loans accounted for 92.01 percent of total assets at September 30, 2008 as compared to 91.25 percent of total assets at December 31, 2007. The increase in gross and net loan volume during the reporting period is attributed primarily to a blend of new loans to several different sectors of the Association's agricultural and lifestyle portfolio, new participations purchased, and new loans to the residential portion of the portfolio.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans were $5,622 at September 30, 2008 and $35 at December 31, 2007. Association management maintains an allowance for loan losses in an amount sufficient to absorb possible losses inherent in the loan portfolio at the balance sheet date based on current conditions. The allowance for loan losses was $1,694 at September 30, 2008 and $554 at December 31, 2007, and was considered by management to be adequate.

RESULTS OF OPERATIONS

For the three months ended September 30, 2008

Net income (loss) for the three months ended September 30, 2008, totaled ($622), as compared to $296 for the same period in 2007. Net interest income decreased $97 for the three months ended September 30, 2008 as compared to the same period in 2007. The decrease in net interest income is primarily attributed to the reversal of interest income accrued on loans transferred to nonaccrual during the quarter.

At September 30, 2008 interest income on loans decreased $277 as compared to the same period in 2007. Nonaccrual income was $0 for the three months ended September 30, 2008 and for the same period in 2007. Interest expense decreased $180 for the three months ended September 30, 2008 as compared to the same period in 2007. There was a provision for loan losses of $1,000 for the three months ended September 30, 2008 and a reversal of allowance for loan losses of $24 for the same period in 2007. Noninterest income for the three months ended September 30, 2008 totaled $737 as compared to $684 for the same period of 2007, an increase of $53. Noninterest expense for the three months ended September 30, 2008 decreased $163 compared to the same period of 2007. There was a provision for income taxes of $5 for the three months ended September 30, 2008 as compared to a benefit for income taxes of $8 during the same period of 2007.

For the nine months ended September 30, 2008

Net income for the nine months ended September 30, 2008, totaled $40 as compared to $1,139 for the same period in 2007. Net interest income decreased $243 for the nine months ended September 30, 2008 as compared to the same period in 2007.

At September 30, 2008 interest income on loans decreased $819 as compared to the same period in 2007. Nonaccrual income was $10 for the nine months ended September 30, 2008 and $0 for the same period in 2007. Interest expense decreased $576 for the nine months ended September 30, 2008 as compared to the same period in 2007. There was a provision for loan losses of $1,138 for the nine months ended September 30, 2008 and a reversal of allowance for loan losses of $24 for the same period in 2007. Noninterest income for the nine months ended September 30, 2008 totaled $2,175 as compared to $2,190 for the same period of 2007, a decrease of $15. Noninterest expense for the nine months ended September 30, 2008 decreased $366 compared to the same period of 2007. There was a provision for income taxes of $5 for the nine months ended September 30, 2008 as compared to a benefit for income taxes of $40 during the same period in 2007. The benefit for income taxes was a result of the receipt of a state tax refund exceeding the federal tax amount.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the *Ag***First** *Farm Credit Bank* (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2008 was $175,757 as compared to $161,298 at December 31, 2007. The increase during the period is primarily attributed to an increase in loan volume.

CAPITAL RESOURCES

Total members' equity at September 30, 2008 decreased to $25,779 from the December 31, 2007 total of $26,126. The decrease in members' equity is attributed to the decrease in earnings.

Total capital stock and participation certificates were $3,912 on September 30, 2008 compared to $3,945 on December 31, 2007. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business in excess of stock purchases.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2008, the Association's total surplus ratio and core surplus ratio were 10.33 percent and 9.80 percent, respectively, and the permanent capital ratio was 12.53 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

SIGNIFICANT EVENT

Following the June 30, 2008 retirement of Robert N. Carpenter, President and Chief Executive Officer, the Association and Farm Credit of the Virginias, ACA entered into an agreement where David E. Lawrence would serve as Chief Executive Officer for the Association effective July 1, 2008, in addition to being Chief Executive Officer of Farm Credit of the Virginias, ACA. This agreement with Farm Credit of the Virginias, ACA was mutually discontinued effective August 22, 2008. Luther O. Stiles was appointed by the Board of Directors to serve as acting Chief Executive Officer.

See Note 4, Merger Activity, in the Notes to the Financial Statements, regarding a proposed plan of merger effective December 31, 2008.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization and Significant Accounting Policies", in the Notes to the Financial Statements, and the 2007 Annual Report of the Association for recently issued accounting pronouncements.

NOTE:
Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-999-5341 or writing Mary S. Miller, Vice President and CFO, Valley Farm Credit, ACA, P.O. Box 2700, Winchester, Virginia 22604, or accessing the website, *www.valleyfc.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Valley Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2008 *(unaudited)*	December 31, 2007 *(audited)*
Assets		
Cash	$ 242	$ 243
Loans	190,089	174,590
Less: allowance for loan losses	1,694	554
Net loans	188,395	174,036
Loans held for sale	317	—
Accrued interest receivable	1,703	1,401
Investment in other Farm Credit institutions	3,945	3,957
Premises and equipment, net	7,733	8,075
Due from AgFirst Farm Credit Bank	1,215	1,677
Other assets	1,204	1,338
Total assets	$ 204,754	$ 190,727
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 175,757	$ 161,298
Accrued interest payable	718	764
Patronage refund payable	21	213
Other liabilities	2,479	2,326
Total liabilities	178,975	164,601
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,912	3,945
Retained earnings		
Allocated	4,130	4,487
Unallocated	17,737	17,694
Total members' equity	25,779	26,126
Total liabilities and members' equity	$ 204,754	$ 190,727

The accompanying notes are an integral part of these financial statements.

Valley Farm Credit, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Interest Income				
Loans	$ 3,084	$ 3,361	$ 9,407	$ 10,226
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,149	2,329	6,434	7,010
Net interest income	935	1,032	2,973	3,216
Provision for (reversal of allowance for) loan losses	1,000	(24)	1,138	(24)
Net interest income after provision for (reversal of allowance for) loan losses	(65)	1,056	1,835	3,240
Noninterest Income				
Loan fees	47	53	215	214
Fees for financially related services	121	67	182	131
Equity in earnings of other Farm Credit institutions	414	384	1,227	1,108
Gains (losses) on sale of rural home loans, net	100	127	372	533
Gain on sale of assets	—	—	—	9
Other noninterest income	55	53	179	195
Total noninterest income	737	684	2,175	2,190
Noninterest Expense				
Salaries and employee benefits	690	824	2,187	2,517
Occupancy and equipment	183	197	578	626
Insurance Fund premium	61	61	186	185
Other operating expenses	355	370	1,014	1,003
Total noninterest expense	1,289	1,452	3,965	4,331
Income before income taxes	(617)	288	45	1,099
Provision (benefit) for income taxes	5	(8)	5	(40)
Net income (loss)	$ (622)	$ 296	$ 40	$ 1,139

The accompanying notes are an integral part of these financial statements.

Valley Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2006	$ 4,042	$ 4,286	$ 16,472	$ 24,800
Net income			1,139	1,139
Capital stock/participation certificates issued/(retired), net	(74)			(74)
Retained earnings retired		(279)		(279)
Patronage distribution adjustment		42	(52)	(10)
Balance at September 30, 2007	$ 3,968	$ 4,049	$ 17,559	$ 25,576
Balance at December 31, 2007	$ 3,945	$ 4,487	$ 17,694	$ 26,126
Net income			40	40
Capital stock/participation certificates issued/(retired), net	(33)			(33)
Retained earnings retired		(369)		(369)
Patronage distribution adjustment		12	3	15
Balance at September 30, 2008	$ 3,912	$ 4,130	$ 17,737	$ 25,779

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of Valley Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited third quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS 141R). SFAS 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2008	**2007**
Balance at beginning of period	$ 554	$ 594
Provision for (reversal of) loan losses	1,138	(25)
Loans (charged off), net of recoveries	2	–
Balance at end of period	$ 1,694	$ 569

NOTE 3 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the nine months ended September 30,	
	2008	**2007**
Pension	$ 156	$ 267
401(k)	98	101
Other postretirement benefits	74	92
Total	$ 328	$ 460

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/08	Projected Contributions For Remainder of 2008	Projected Total Contributions 2008
Pension	$ -	$ -	$ -
Other postretirement benefits	34	18	52
Total	$ 34	$ 18	$ 52

As of September 30, 2008, no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions for 2008. However, a new funding policy adopted during 2008 and a declining investment market, which has impacted the discount rate and the return on plan assets, will require an additional contribution to be made prior to the next plan measurement date at December 31, 2008. The additional contribution amount will be determined by the plan's Sponsor Committee.

NOTE 4 – MERGER ACTIVITY

In late September 2008, the Board of Directors of the Association approved a Plan of Merger (Merger) with MidAtlantic Farm Credit, ACA. The Merger has been approved by AgFirst Farm Credit Bank and has been submitted to the Farm Credit Administration (FCA) for approval. Upon FCA approval, the Merger will be submitted to shareholders of both Associations for their review and determination. Stockholders will be receiving detailed information regarding the proposed Merger during November 2008. Pending the necessary approvals, the merger will be effective on December 31, 2008.